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China's Accession to the WTO: What Does It Mean for Hong Kong?

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Report Highlights:
Currently a large portion of U.S. agricultural exports to Hong Kong are transhipped into Mainland China, however, Hong Kong's role as an entrepot may change as more of this trade goes directly to China with the expected lowering of trade barriers resulting from China's accession to the WTO. The pace of these changes will almost certainly vary between the major commodities traded.

Includes PSD changes: No
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I. Historic Background of Hong Kong's Role in South China and The Challenge Posed by China's WTO Accession

Hong Kong has been regarded as the gateway to China for well over a century. During its history as a British colony, it experienced enormous economic development largely because of its location on the doorstep of China, its flexibility in working with several cultures and the virtual absence of trade barriers.

As a deepwater port located at the mouth of the Pearl River, Hong Kong's natural features make it the ideal entrepot for all types of trade passing through that massive estuary. Lacking many of the natural resources necessary for comprehensive agricultural and industrial development - fertile soil, a temperate climate, low cost energy sources, adequate land suited for industrial development - Hong Kong's economy has developed primarily in the areas of light industry and services. Its primary business "identity" is a middleman for trade with China.[1]

Starting in the late 19th century, Hong Kong businessmen developed the cultural understanding and trading skills necessary to link China with Britain and maximize the benefits offered by both regions - cheap labor and unique raw materials from China and trading connections and managerial skills from Britain. During the 20th century, Hong Kong businessmen parlayed their successful South China/Britain trading model into a much larger role as a catalyst and an artery for a significant share of China's trade with the rest of the world.

While Hong Kong is frequently acknowledged as the world's freest market where almost all goods may enter free of duty (with the exception of excise taxes on tobacco and alcoholic beverage products), Mainland China has maintained very high import barriers following the establishment of the People's Republic of China in 1949. The huge differences in import access, plus Hong Kong's location at the mouth of the large Pearl River estuary, created an irresistible environment for "gray channel" trade.

A large volume of U.S. agricultural exports of many types - but primarily consumer-ready foods such as meats and fresh produce and commodities for further processing such as hardwood lumber - make their way into Mainland China by coming first into duty-free Hong Kong. Hong Kong's duty-free status and close proximity to Mainland China have allowed it to become the 8th largest destination for U.S. agricultural exports - and 4th largest for consumer-ready agricultural products - even though its population is slightly less than 7 million.

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[1] In contrast to Hong Kong, Macau, at the other end of the Pearl River estuary, was colonized by the Portuguese several hundred years ahead of Hong Kong, but never developed the same open market trading mentality that has allowed Hong Kong to involve itself with most of the trade coming into South China. This was due in large part to the absence of deepwater port facilities found in Hong Kong.

China's entry into the WTO may change Hong Kong's entrepot role in handling this type of re-export agricultural trade altogether. In 1999, 44 percent of Hong Kong's agricultural imports from the U.S. were re-exported to Mainland China. Many observers believe that China's import liberalization during the next 3-4 years will rechannel an increasing amount of China's imports currently coming through Hong Kong so that they go directly to Mainland China ports. While Hong Kong's share of China trade will likely decline as WTO liberalization takes effect, the absolute volume of China's imports should increase significantly. This will likely put Hong Kong in the role of handling a smaller share of an expanding "pie" of Chinese imports. The purpose of this report is to gaze into the future and assess the impact that China's access to the WTO will have on Hong Kong's agricultural import market and Hong Kong's future role in the agricultural trade of this region.

II. Hong Kong on the Eve of China's WTO Liberalization

Upheaval in its economic and trade environment, with the accompanying need to redefine its trading role and identity within Greater China, is nothing new for Hong Kong. In fact, it was only 3 years ago that the British colony of Hong Kong became the Hong Kong Special Administrative Region (SAR) of China as part of the July 1, 1997 handover. Many observers feared that the handover would threaten Hong Kong's open market, possibly with new import barriers being thrown up by the Beijing government as a symbolic gesture of its sovereignty. Fortunately, these fears have not materialized, in part due to careful advance planning between the UK and Chinese governments in the form of the Basic Law, which tightly spells out how Hong Kong will evolve in the first 50 years following the 1997 handover.

Hong Kong was allowed to enter the World Trade Organization as a founding member with the status of "customs territory" in 1994. Following the 1997 handover, the SAR has continued to administer an import system that is completely separate from that of mainland China. In accordance with the "One Country, Two Systems" provisions of the Basic Law, the Hong Kong government exerts its own authority on economic and international trade issues, while following Beijing principles on foreign relations and national security.

In fact, the system might just as well be termed "One Country, Two Systems, Separate Governments" because the Hong Kong SAR Government largely makes its own decisions outside of foreign relations and national security, without formal consultation with the Beijing government. In the diplomatic and trade world, Hong Kong still maintains separate representation to several international organizations, including the WTO, World Customs Organization, PECC and the Asian Development Bank. While Hong Kong representatives at international organizations may consult with Beijing on their positions, they have on occasion adopted positions on trade issues that are independent from, and significantly more supportive of international cooperation than, their Beijing counterparts.

In this current atmosphere of relative independence on economic policy issues and continued open markets, Hong Kong has been able to fully maintain its traditional role in Greater China as a facilitator of trade, communications, transportation and investment between Mainland China and the rest of the world. On the eve of China's opening up its markets to WTO members, Western businessmen seeking deals with China still find many advantages to working with a Hong Kong partner:

- Connections and Communications: Hong Kong companies are able to provide extensive connections in China through their family ties or at least through a shared cultural heritage; excellent language skills; and perhaps most importantly, the ability to explain Chinese institutions and practices to Westerners in a language they can understand.

- Trade Skills and Resources: Hong Kong traders have lengthy experience, strong reputations and wide knowledge in the areas which are key to success in international trade: knowledge of products and world markets; shipping facilities; financing; and marketing skills.

- Access to China: Through various methods, Hong Kong traders are able to get products into China that would otherwise be prohibited or charged a higher duty.

- Ability to Pay: For foreign suppliers, Hong Kong intermediaries traditionally have taken much of the worry out of getting paid for shipments to China, either through their ability to obtain foreign exchange or their resourcefulness in finding paying customers for goods in hand.

The Hong Kong model has succeeded mightily to date. Forty-three percent of Mainland China's $74 billion of exports to the United States in 1999 passed through Hong Kong. Hong Kong is presently the world's largest container port, handling an estimated 16.2 million TEU's in 1999, with a commitment to expand its capacity by 20 percent in the near future. On the inbound side of trade, Hong Kong at $1.5 billion was our 8th largest market for U.S. agricultural products in 1999. In the consumer-ready agricultural sector it was 4th largest behind Japan, Canada and Mexico. Especially for U.S. meat, poultry and horticultural shippers, Hong Kong was a vital export market in 1999: #1 for poultry; #2 for table grapes and pistachios; #3 for oranges, lemons and frozen french fries; and #6 for beef and pork.

Depending upon the commodity, a significant portion of U.S. agricultural products imported into Hong Kong are re-exported into mainland China, as shown in the table below:

Table 1: Hong Kong Re-Exports to China of Major U.S. Agricultural Imports, 1999

Product	Imports from U.S. (US$ million)	Re-Exports to China (US$ million)	Percentage Re-Exported
Meat and Poultry:			
Chicken	516	351	68
Beef	51	3	6
Pork	4	1	25
Fruit:			
Table grapes	80	18	23
Oranges	37	7	19
Apples	26	12	46
Cotton	60	1	2
Seafood	42	4	9
Hardwood Lumber*	55	58	100
Hides & Skins*	23	31	100
Dairy products	40	26	65
Wine	6	1	17
Other ag prods.	830	292	35
Total	1,767	802	49

* Re-export figures are higher than import figures due to value added as a result of trans-shipment through Hong Kong.

Source: Hong Kong Census & Statistics Department

Most re-exports from Hong Kong to China are handled by Hong Kong "transport" companies which provide a freight forwarding service to Hong Kong importers, moving their goods into China, taking care of documents and paying tariffs to the Chinese Government on behalf of shippers. The “transportation fees” these companies charge to Hong Kong importers for their services reflect the shipping conditions at Mainland ports, and they typically rise when the Chinese Government announces "crackdown" measures such as more stringent requirements for meeting sanitary standards for imports. For instance, in April 2000, the Chinese Government announced it would increase Customs valuation levels of frozen meats including U.S. products. Fuel costs subsequently increased due to a clamp down on smuggled gasoline by the Chinese Government. These events resulted in local transport companies revising their transportation fees upwards, by as much as RMB$300/MT. The Mainland Government’s periodic crackdowns create uncertainty about dependable access to China, thereby inhibiting the trading environment in South China. China's membership in the WTO is expected to reduce this uncertainty.

III. A Look into the Future

The Bilateral WTO Market Access Agreement reached between the United States and China on November 15, 1999 will significantly reduce the import barriers that China currently imposes on U.S. agricultural products. The overall duty on agricultural products will fall from 22 percent to 17.5 percent. On U.S. priority agricultural products, tariffs will drop by an average of 31 percent to 14 percent by January 2004. U.S. priority agricultural products whose tariffs will be reduced include the following:

Table 2. China's WTO Tariff Reductions for U.S. Priority Agricultural Products

Priority Products	Pre-WTO Tariffs (Percent Ad Valorem Duty)	WTO Tariffs in January 2004 (Percent Ad Valorem Duty)
Poultry	20	10
Pork	20	12
Beef	45	12
Table grapes	40	13
Wine	65	20
Cheese	50	12

Source: Office of the U.S. Trade Representative

Among the other U.S. agricultural products frequently re-exported from Hong Kong to China, similar significant duty reductions will take place: oranges, lemons and plums: 40 to 12 percent; apples, pears, cherries and peaches: 30 to 10 percent; lactose and pistachios 35 to 10 percent.

The Agricultural Cooperation Agreement reached between the two governments on April 10, 1999 has already lowered technical import barriers on U.S. wheat (by China's agreement on a tolerance level for TCK in wheat exports), meat (by China's acceptance of USDA/FSIS inspection certification), and citrus (by China's acceptance of international standards of pest risk assessment) entering mainland China.

Long-term China watchers are quick to point out that Beijing's recent WTO concessions are in fact part of a longer term deregulation and import liberalization trend going back to the late 1970's when China made its first moves to reduce barriers to economic growth and make its economy more market-oriented. While confident that China will continue to liberalize its import market in the coming years, the same observers are also quick to temper expectations for WTO market openings by pointing out the various "bumps in the road" toward liberalization seen during the past 20 years and the political need to cushion China's rural economy against a flood of competing imports.

While Beijing's WTO concessions are significant, they are not sufficient by themselves to guarantee huge gains in trade. For instance, the agreement provides for import tariffs to fall, but continued restrictions on the availability of foreign exchange (the RMB is still not fully convertible outside China) may make it difficult and somewhat unpredictable to obtain funds to pay foreign suppliers.

Hong Kong's trade community has been a staunch supporter of China's accession to the WTO and has repeatedly stated publicly that it expects stronger economic growth to result from the agreement. The Hong Kong Government has also been a strong supporter, partly because it sees Mainland China's greater participation in the international trading community as further ensuring the continuation of Hong Kong's own: (1) independence in the area of economic policymaking, and (2) prosperous free-trade lifestyle. At the same time, the more progressive Hong Kong trading firms are closely reviewing their future role and considering changes in their operations that will permit them to remain an integral part of U.S.-China trade.

To survey the range of expectations of how China's WTO liberalization will affect trade patterns and the role of Hong Kong companies in China trade, the Agricultural Trade Office conducted a series of interviews with key Hong Kong players in all agricultural product sectors that will be affected by the WTO agreement. The observations and expectations of our key contacts are summarized below according to the commodities they handle.

A. Fresh Produce and Dried Fruit & Nuts

Table 3: Scorecard for Hong Kong Trade Patterns and Mainland China Import Requirements: Fresh Produce and Dried Fruit & Nuts

Product	1999 Hong Kong Re-exports To China (US$ mil)	1999 China Imports Through All Channels (US$ mil)	1999 Percentage Of China's Imports Coming From Hong Kong	2000-2004 Import Tariffs In China Following WTO Accession
Grapes	18	36	50	40% - 13%
Apples	12	17	71	30% - 10%
Oranges	7	7.3	96	40% - 12%
Pistachios	15	20	75	35% - 10%
Almonds	13	14	93	30% - 10%
Raisins	1	1.2	83	40% - 10%

Source: Hong Kong Census & Statistics, and Chinese Customs Service

The fresh produce and dried fruit & nut re-export trade in Hong Kong is composed of a large number of small to medium-sized trading companies, with fairly minimal participation by multi-national or joint venture companies. These companies are vulnerable to big swings in supplies and prices, depending upon supply and demand factors and access to the Mainland China market. Several companies go out of business every year as a result of getting into the market at the wrong time.

At almost all times of year, sizeable volumes of fresh fruit from the United States - especially apples, oranges and grapes - are moving into South China. Containers of fruit typically move through the Nanhai Lishui wholesale market in southern Guangdong Province, which is largely dedicated to imported fruit sales. From here the fruit moves by truck throughout the southern region of China and can be transported as far away as Beijing. Buyers from all over China arrive daily in Nanhai Lishui to pick up containers.

The extensive development of this distribution infrastructure in Guangdong Province - Nanhai Lishui market and the transportation network that feeds into it from all over South China - will keep Hong Kong and the Pearl River estuary actively involved in China's fresh fruit imports for the foreseeable future. Prospects for the companies handling this business, however, are probably less secure. As one Hong Kong trader said about the China WTO agreement, "The good news is, it will not put us out of business, but it will change the way we do business here."

Currently, Hong Kong traders are able to provide the supplier contacts, the shipping and the financing for fruit shipments coming into South China. As fruit wholesalers in Mainland China move to perform that role, Hong Kong companies may be forced to move to, or at least expand their presence in, China to take on new competition from mainland companies attempting to arrange direct shipments and take over the trading, shipping and financing roles earlier held by Hong Kong companies.

As for tree nuts, other infrastructure factors are likely to keep a sizeable volume of Mainland China's imports coming through Hong Kong. Especially for pistachios, but also for almonds to a lesser extent, Hong Kong trading companies have established cracking and slicing/roasting operations in Guangdong Province which utilize U.S. imports coming in through Hong Kong. After further processing, the cracked pistachios and sliced/roasted almonds are distributed throughout China and also re-exported to Hong Kong.

For all products in this category, an important consideration in how fast the trade goes directly to China without transiting Hong Kong is the extent to which U.S. exporters will be willing to take the time and energy to make new contacts in the Mainland and to assume some additional risk of getting paid for their shipments by lesser-known Chinese receivers. Their traditional Hong Kong partners will seek to convince them that it is best to continue doing business through existing channels, however, new partners in China may offer innovative pricing and distribution plans that deserve serious consideration.

Over the longer term as the structure of Chinese agriculture evolves to meet sharper competition from imports - especially lower cost commodities produced with superior foreign technology and more abundant land resources - China can be expected to increase production of labor-intensive products (including fresh produce) where it is expected to have a competitive advantage relative to other producers in the region. This scenario has already been seen with much higher Fuji apple production in China displacing sales of U.S. Red Delicious apples in both China and Hong Kong. Similar developments are underway for table grapes, peaches, plums, broccoli, lettuce and tomatoes. In these areas, we must consider China as both a buyer and growing competitor, which will force U.S. suppliers to place even more emphasis on selling high quality products to China.

B. Fresh & Frozen Meat & Chicken

Table 4: Scorecard for Hong Kong Trade Patterns and Mainland China Import Requirements: Fresh & Frozen Meat & Chicken

Product	1999 Hong Kong Re-exports To China (US$ mil)	1999 China Imports Through All Channels (US$ mil)	1999 Percentage Of China's Imports Coming From Hong Kong	2000-2004 Import Tariffs In China Following WTO Accession
Chicken	351	601	58	20% - 10%
Beef	3	4	75	45% - 12%
Pork	1	4	25	20% - 12%

Source: Hong Kong Census & Statistics, and Chinese Customs Service

As shown in the table above, currently almost 60% of U.S. frozen meat and poultry products going into Mainland China flow through Hong Kong. The great majority of this trade consists of poultry rather than red meats. There is a sharp difference in the percentage of poultry versus beef imports entering Hong Kong that are re-exported to Mainland China - 68 versus 6 percent.

In the past, most U.S. poultry has moved from Hong Kong to the Mainland primarily into the port of Panyu, near Guangzhou. Traders there in turn had the inland connections and infrastructure to move poultry throughout China. After China enters the WTO, a reduction of duties and the easing of improper or unfair import restrictions will make Shanghai, Dalian, Tianjin, and other Mainland China ports more attractive as entry points into China.

For the foreseeable future, trade will continue through Hong Kong, however several of the major U.S. poultry firms trading in Hong Kong are rapidly expanding their distribution channels in the Mainland. Even before the WTO agreement was signed, some traders started establishing offices in Mainland China. In contrast to fresh produce, much of the poultry exported from the United States to Hong Kong is handled by multi-national firms that are willing and able to relocate if necessary. Some traders are concerned that as tariffs come down, the Mainland could establish minimum levels of Customs valuation for certain products.

U.S. suppliers still need to become as comfortable with Mainland customers as they are now with Hong Kong intermediaries. Shipping is likely to be the first element of the direct trade equation to fall in place, provided shipping documentation can be smoothed out. Financing will be slower to shift away from Hong Kong companies because when sales are not good, Chinese buyers simply may hesitate to pay for goods they've already ordered. Therefore, Hong Kong will continue to play a vital role in financing these international transactions.

C. Cotton

Product	Marketing Year 1999 (Aug 1999 - July 2000) HK Re-exports to China MT	MY 99 China Imports through All Channels	MY 99 Percentage of China's Imports Coming from HK	Tariff Rate Quota Following WTO Accession	Tariff Rate Quota in 2004
Cotton	8,705	29,879	29%	3% duty for 743,000 MT; 76% duty for additional imports	1% duty for 894,000 MT; 40% duty for additional imports

During the most recent marketing year ending in July 2000, about 11% of Hong Kong's cotton imports were re-exported, most of which went to China. China's imminent accession to WTO will probably have diverse impacts on Hong Kong's cotton trade. On the positive side, Hong Kong garment manufacturers, who have plants in China, expect to benefit from better access to the US market for manufactured apparel items. There will be a greater demand for locally produced yarn, which will in turn boost cotton consumption. Also, China's import of US cotton will rise after its accession to WTO and subsequent elimination of import barriers. Hong Kong trading firms may be able to gain business as a result of China's opening up the market.

On the other hand, it is also possible that Hong Kong trading companies may lose business in the long term to importers in China dealing directly with foreign cotton suppliers. While Hong Kong spinning mills may have more business after China's accession to WTO, their profit margin is likely to drop. When China becomes a WTO member, import tariffs for raw material imports will be lower. Consequently, China will able to lower its yarn production cost and offer yarns at lower prices. Hong Kong spinners expect that they will need to lower their profit margin eventually in order to compete with yarns produced in China.

D. Seafood

Table 5: Scorecard for Hong Kong Trade Patterns and Mainland China Import Requirements: Seafood

Product	1999 Hong Kong Re-exports To China (US$ mil)	1999 China Imports Through All Channels (US$ mil)	1999 Percentage Of China's Imports Coming From Hong Kong	2000-2004 Import Tariffs In China Following WTO Accession
Seafood	4	50	8	25.3% - 10.6%

Source: Hong Kong Census & Statistics, and Chinese Customs Service

Approximately 60-70% of the U.S. seafood imported into Hong Kong is re-exported to the Mainland. Although this percentage may drop once China enters the WTO, Hong Kong can still play a major role in imports. Fresh seafood is an integral part of the diet of Southern China. Therefore in response to high demand, more imported seafood will be brought in via air shipments in the future. Hong Kong is prepared to remain an integral part of this trade with many more daily international flight arrivals than most major cities in the Mainland.

E. Hardwood Lumber

Table 6: Scorecard for Hong Kong Trade Patterns and Mainland China Import Requirements: Hardwood Lumber

Product	1999 Hong Kong Re-exports To China (US$ mil)	1999 China Imports Through All Channels (US$ mil)	1999 Percentage Of China's Imports Coming From Hong Kong	2000-2004 Import Tariffs In China Following WTO Accession
Lumber	85	574	15	10.6% - 3.8%

Source: Hong Kong Census & Statistics, and Chinese Customs Service

Virtually 100% of the U.S. hardwood lumber imported into Hong Kong is re-exported to Mainland China for further processing. The majority of the processing facilities where U.S. hardwood lumber ends up are in Guangdong Province of China directly adjacent to Hong Kong. Since Hong Kong is the major deep water port serving Guangdong Province, current trading patterns are not expected to change.

Nearly all U.S. solid wood exports to Mainland China and Hong Kong are comprised of value-added solid wood commodities. U.S. exports are expected to grow as China increasingly turns to U.S. suppliers to meet its housing, furniture, interior paneling and flooring needs. Hong Kong will continue as a significant gateway into the Mainland China market because of its traders' expertise in managing these large-scale, high-value shipments.

F. Other Factors Influencing Transshipments

Ownership and Cash Flow Considerations

Various multi-national companies already have a strong foothold in Mainland China through joint ventures able to generate their own cash flow. Larger U.S. companies with joint ventures in Mainland China are able to act as exporter and importer in many transactions, making financing and payment much smaller obstacles. On the other hand, small scale operators without joint ventures in Mainland China will be much more dependent on WTO provisions to provide the financing and availability of foreign exchange necessary to create successful trade in Mainland China.

Foreign Exchange Availability and Financing Considerations

U.S. exporters may still be concerned about payment when dealing directly with mainland buyers. Larger mainland importers can pay in U.S. dollars, but they are not the majority of importers. Most U.S. exporters prefer to transact business through Hong Kong traders because of the higher assurance of getting paid for the goods.

Hong Kong will likely continue in its current financial role for at least five years after China's entry into the WTO for several reasons: (1) it remains difficult for privately-owned companies in the mainland to open letters of credit, (2) financial reliability of Hong Kong companies - U.S. exporters are reasonably assured of getting paid, (3) Hong Kong has a "western-style" legal system with the rule of law and enforceable contracts, and (4) the Chinese Renminbi is still not convertible outside China.

Geographic Considerations

Hong Kong remains unique in China as a deepwater port able to accommodate the very largest container ships. That factor, plus its location at the mouth of the Pearl River estuary, will keep Hong Kong involved in a significant amount of South China's trade regardless of what happens to import policies. Veteran Hong Kong traders estimate that the share of China's agricultural imports coming from Hong Kong will drop from an estimated current level of 70-80 percent down to 30 percent as more U.S. exports go direct to Mainland China ports. However, while Hong Kong's share of China's imports may dwindle by half, the total volume is expected to expand significantly enough that Hong Kong's absolute volume of re-exports to China could remain near the current high levels for many years to come.

IV. Significance of the Hong Kong Market

Hong Kong is the logical and prudent place for U.S. exporters to begin their redoubled marketing efforts in China. With the same ethnic makeup as mainland Chinese, but a much higher average level of disposable income and years of exposure to Western style products coming in with no duty, Hong Kong consumers are a 'leading indicator' of future potential consumer demand in China. As a market, Hong Kong now is where China should be in the future. Therefore it should be considered as an incubator for long-term mainland China export marketing projects, an easy-entry, exporter-friendly marketing laboratory for the world's most populous country.

Mainland China aside, Hong Kong's agricultural market in its own right continues to command the attention of producers, processors, and exporters of U.S. agricultural products due to several factors including: (1) the absence of trade barriers on any agricultural products other than alcoholic beverages and processed tobacco products, and (2) a highly developed marketing system and affluent consumers who demand high value imports. Per capita income (US$23,200 in 1999) in Hong Kong is among the highest in Asia, with a significant portion of income spent on food.

V. Summary

In summary, the factors that will determine what China's accession to the WTO will mean for Hong Kong: (1) the ability of mainland companies to deal directly with the U.S. and other foreign suppliers, which is contingent on their speed of acquiring the necessary language and communications skills and trading connections to purchase directly, (2) the ability of mainland companies to obtain foreign exchange to pay their foreign suppliers, (3) the political flexibility that China has to expose its rural economy to foreign competition; (4) the further development of China's import market - how will competition from domestic production change over time, and to what extent will increased demand result from lower priced imports.

Two opposing forces make it very difficult to predict in the long term the volume of agricultural exports to China that will continue to flow through Hong Kong after China accedes to the WTO. On the one hand, the reduction of import duties and quotas and the easing of technical import requirements promises to dramatically boost the overall volume of goods going into the Mainland. On the other hand, Hong Kong's share of the total will almost certainly decline as more shipments go through ports in other regions of China. In the long term, the total percentage of exports to China going through Hong Kong may drop to 30%, with 50-60% of the U.S. shipments going directly into the Shanghai area, and 10-15% going into Dalian in Northern China.

China's entry in the WTO should be good for Hong Kong in the short (1-5 year) term because China will import a lot more goods once tariffs go down. At this stage, it seems that Hong Kong traders will continue in their present role, with some modifications, but the more mainland China opens, the more challenging it will be. Hong Kong traders are well positioned however, to benefit from increasing opportunities to provide high-value-added services, including marketing, accounting, law, shipping & freight, insurance, trade financing, and foreign exchange. Hong Kong traders will carry smaller inventories, but will remain involved in a financial support and "Freight forwarder" role (buying agent no longer taking title to the goods). Trade patterns may change, but change will be much slower than most people expect - at least 10 years.

What seems to be Hong Kong's traders best chance of success in a Mainland that is a WTO member are (a) an expected growth in overall China trade and investment, (b) emergence of Hong Kong's larger companies which are ready to compete in the Mainland market, and (c) the increased need for Hong Kong's established skills and expertise in many facets of international trade.